25X1
25X1

Page Denied

Next 4 Page(s) In Document Denied

Reagan to Impose Limited Sanctions On British Firm

Soviets to Meet Goal, CIA Analysis Finds

By Dan Morgan
Washington Post Staff Writer

A classified memorandum prepared by the Central Intelligence Agency in August concluded that the Soviet Union will meet its gas delivery commitments to Western Europe "through the 1980s," despite the Reagan administration's efforts to delay construction of the Siberian pipeline.

The memorandum, classified "secret" but circulated widely in the government, undercuts a central administration argument that the sanctions, divisive as they are proving to be within the Atlantic Alliance, eventually will pay off by depriving the Kremlin of western currency needed to support its lagging economy and its military buildup.

For this reason, middle-level officials at the National Security Council, and the State, Defense and Commerce departments are reported to have challenged the CIA conclusions and pressed for a Special National Intelligence Estimate, or "SNIE," of the issue by the entire U.S. intelligence community.

The interagency critique of the CIA memo was reviewed last week by State Department counselor James L. Buckley and sent to the National Security Council. NSC officials, however, declined to discuss the matter yesterday.

The CIA analysis, based on information as of Aug. 6, expresses the view that Moscow has "a wide range of options" to accomplish its goal of increasing natural gas deliveries to Western Europe, including the following:

- "Deliveries could begin in late 1984, as scheduled, by using existing pipelines, which have excess capacity of at least 6 billion cubic meters annually."
- "Using some combination of Soviet and West European equipment, deliveries through the new export pipeline could probably begin in late 1985 and reach nearly full volume in 1987—about one year later than if the sanctions had not been imposed."
- "At substantial cost to the domestic economy, the U.S.S.R. could divert construction crews and compressor station equipment from new domestic pipelines to the export pipeline, or even dedicate a domestic pipeline for export use to ensure capacity adequate to meet contractual delivery obligations."

Only this last choice of relying primarily on their own resources would cause the Soviets much difficulty, the memo said. It could force Moscow to cut back its domestic pipeline construction program, forcing a reduction of domestic gas deliveries by as much as 30 billion cubic meters a year.

That possibility has faded in the last few days as French and British companies have loaded key pipeline components on Soviet-bound freighters in defiance of President Reagan's order June 15 forbidding foreign firms utilizing U.S. licenses from delivering the equipment. But European governments have unanimously rejected these controls and ordered their firms to proceed with deliveries.

The practical problem facing the administration is that enough U.S.-built equipment is in Europe to allow European firms to ship the Soviets as many as 23 complete turbines of the 125 ordered.

By obtaining these turbines and operating compressor stations with standby units, the CIA evaluation concluded, "Moscow could deliver through the new pipeline about three-fifths of the planned annual throughput of nearly 30 billion cubic meters."

And if the French firm Alsthom-Atlantique supplies an additional 40 turbines, using General Electric technology, "[It] could boost throughput to nearly 90 percent of capacity."

This pessimistic analysis of the sanctions' impact is in line with that of some other specialists in the field.

Last July 30, Edward A. Hewett, senior economist at the Brookings Institution, told the Senate subcommittee on international economic policy: "It is unlikely that the U.S. embargo will in itself be responsible for significant delays in the construction of the Soviet-West European line and the deliveries of gas through it."

Nevertheless, critics of the CIA analysis inside the administration charge that the memo vastly underestimates the disruption and financial hardship caused by the sanctions on a hard-pressed Soviet economy.

They contend, for example, that the memo fails to take into account Soviet plans to construct a second export pipeline, utilizing western technology, equipment and financing.

This pipeline will push Soviet earnings from natural gas sales far above the $5 billion a year that the CIA evaluators foresee in the early 1990s, these critics contend. Combined with inflation and a growth in real world energy costs over the next decade, these energy projects could multiply Soviet earnings from natural gas sales many times.

Thus, critics of the analysis argue, denial of U.S. technology and equipment ultimately will deprive the Kremlin of tens of billions of dollars annually and of the ability to divert resources to military modernization and foreign adventures and force it to reform and liberalize its economy.

B

Approved For Release 2007/03/27 : CIA-RDP83M00914R002800050028-1

Directorate of Intelligence

Secret

25X1

Outlook for the Siberia-to-Western Europe Natural Gas Pipeline (U)

An Intelligence Assessment

Secret

SOV 82-10120
EUR 82-10078
August 1982

Copy 562

Page Denied

Approved For Release 2007/03/27 : CIA-RDP83M00914R002800050028-1

Directorate of Intelligence

Secret [redacted] 25X1

Outlook for the Siberia-to-Western Europe Natural Gas Pipeline (U)

An Intelligence Assessment

This assessment was prepared by the Office of European Analysis and the Office of Soviet Analysis. Comments and queries are welcome and may be addressed to the Chief, Resources Branch, Soviet Economy Division, SOVA on [redacted] . 25X1

Secret
SOV 82-10120
EUR 82-10078
August 1982

Outlook for the Siberia-to-Western Europe Natural Gas Pipeline (U)

Key Judgments

We believe that the USSR will succeed in meeting its gas delivery commitments to Western Europe through the 1980s. Moscow has a wide range of options to accomplish this end:

- Deliveries could begin in late 1984, as scheduled, by using existing pipelines, which have excess capacity of at least 6 billion cubic meters (m^3) annually.

- Using some combination of Soviet and West European equipment, deliveries through the new export pipeline could probably begin in late 1985 and reach nearly full volume in 1987—about one year later than if the sanctions had not been imposed.

- At substantial cost to the domestic economy, the USSR could divert construction crews and compressor-station equipment from new domestic pipelines to the export pipeline or even dedicate a domestic pipeline for export use to ensure capacity adequate to meet contractual delivery obligations. 25X1

The task confronting the Soviets is made easier by the nonlinear relation between compressor power requirements and gas throughput in pipeline operations. By obtaining the 20 or so turbines built with the GE-made rotors already in Western Europe and operating compressor stations without standby units, Moscow could deliver through the new pipeline about three-fifths of the planned annual throughput of nearly 30 billion m^3. Turbines using an additional 40 rotors—the number Alsthom-Atlantique contracted before the US embargo to build for the Soviet Union under GE license—could boost throughput to nearly 90 percent of capacity. For reliability of pipeline operation and periodic maintenance, however, the Soviets would probably use some of the available turbines as standby units, thereby limiting throughput to about three-quarters of capacity. 25X1

Completion of the pipeline has become a top-priority objective for the Soviet leadership. On the economic side, they look forward to some $5 billion a year in new hard currency earnings from gas in the early 1990s (after repayment of pipeline borrowing) to partially offset declining oil export revenues. In their view, moreover, the United States' imposition of

Information available as of 6 August 1982 was used in the preparation of this report.

sanctions has made completion of the pipeline a matter of national prestige and has provided an opportunity to foment dissension in the Western alliance. [redacted] 25X1

The West Europeans see Soviet gas as a relatively low-priced substitute for uncertain Middle Eastern oil and also view the Soviet pipeline equipment orders as easing their substantial unemployment problems. In addition, they hold that increased East-West economic interdependence will lead to more responsible Soviet behavior. They are deeply angry about the US decision, especially the extraterritorial and retroactive features of the measures, which they regard as a serious infringement of their sovereignty. [redacted] 25X1

As a result, the West Europeans are seeking ways to defeat or circumvent the extended US sanctions. Paris has ordered French firms to honor their Soviet contracts, and London--acting under legislative authority—has required British firms to do the same. Bonn clearly approves of the French action and has made known its position that the West German Government cannot stop the West German firm involved from delivering embargoed material to the USSR. Rome has said that pipeline contracts will be honored but has not yet ordered Italian firms to do so. [redacted] 25X1

Taking all this into account, we think the likely Soviet choices for completing the export pipeline—in descending order of probability—are:

- Shipment of completed turbines built with the 20 or so GE rotors already in Western Europe.
- Production of the 40 GE-designed rotors by the French firm Alsthom-Atlantique under its existing contract with the Soviets—the move already announced by Paris.
- Production by Alsthom-Atlantique of 60 additional GE rotor sets, to be supplied to the West European turbine manufacturers.
- Western assistance in manufacturing rotors for Soviet-designed 25-megawatt turbines.
- Soviet redesign of pipeline compressor stations, substituting a combination of smaller turbines or other drivers of either foreign or Soviet design.

[redacted] 25X1

Only the last outcome—primary reliance on their own resources—would cause the USSR much difficulty. The costs to them will be much higher if they have to build their own gas turbines and compressors for the export pipeline. Specifically, diverting from the domestic pipeline program Soviet equipment sufficient to equip the export line could reduce gas delivery to the domestic economy by as much as 30 billion m^3 annually for a year or two. Other Soviet equipment options would have considerably smaller impact on domestic gas supply. [redacted] 25X1

Page Denied

Next 13 Page(s) In Document Denied